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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

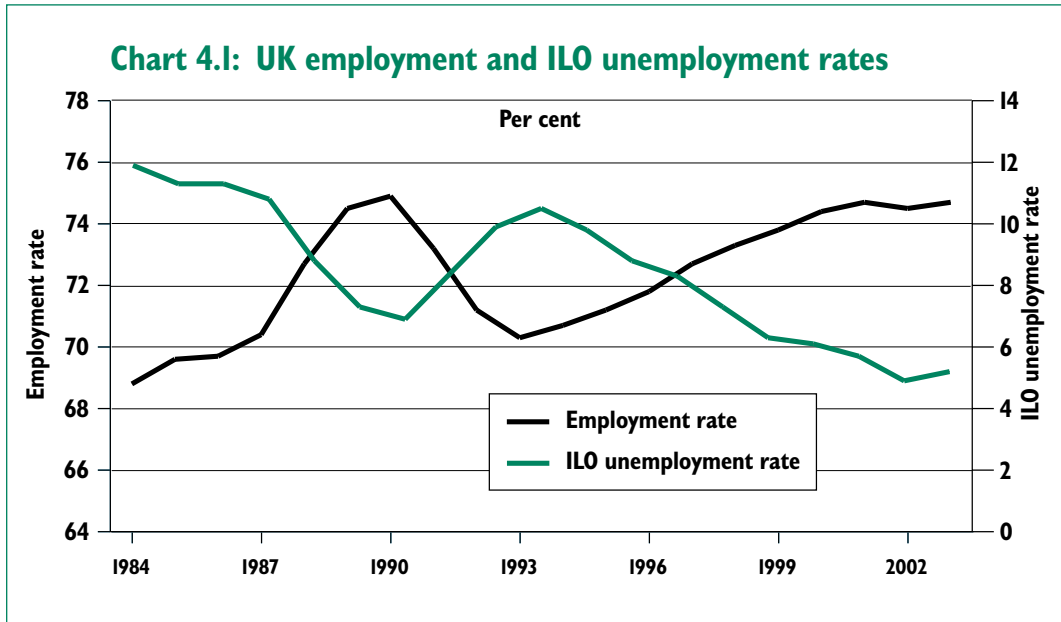
The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. Worklessness, particularly on a long-term basis, is a constraint on the economy's growth potential and a major cause of poverty and deprivation, entailing costs for individuals, households and society as a whole. Delivering full employment requires that everyone should be able to take advantage of the opportunities offered in a stable and enterprising economy. To achieve this, people must be able to exercise real labour market choice and be able to choose between alternatives that work, while policy delivery should be responsive to both individual and local circumstances. To move further towards its aim of full employment in every region, the Government proposes:

- **extra support to help the unemployed, by piloting mandatory short intensive work-focused courses at the six-month stage;**
- **an extension of eligibility for the enhanced New Deal for partners;**
- **enhanced help for lone parents, increasing the number of work-focused interviews lone parents with children aged 14 or over are required to attend, and providing help with childcare costs in the week before starting work;**
- **improving work incentives in London by extending pilots of the £40 per week in-work credit to parents, including lone parents, who have been on certain benefits for a year or more;**
- **continued reform of Housing Benefit, beginning flat-rate Pathfinders in the social sector as soon as it is practical and aligning some of the rules of Housing Benefit and tax credits;**
- **additional help for those on benefits to enter self-employment;**
- **an extension of back to work help for those aged 60 and over and on the Pension Credit by October 2004; and**
- **extra help for sick and disabled people by enabling Jobcentre Plus personal advisers to provide additional voluntary support to Incapacity Benefit customers who want to return to work.**

INTRODUCTION

4.1 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. For both economic and social reasons, everyone who is able to work should have the opportunity to do so. Worklessness, especially when long-term, is a constraint on Britain's growth potential and entails major costs for individuals, households and society. Employment is the best means of avoiding poverty during working life and provides the best platform from which to save for security in retirement.

4.2 The performance of the UK labour market over recent years has been strong by both international and historical standards. At 5.0 per cent, UK unemployment on the International Labour Organisation (ILO) definition is the lowest among the G7 economies. Claimant count unemployment has fallen by more than 700,000 since 1997. Since the start of 2001, unemployment has remained consistently below one million – the first time this has happened since 1975. Falls in unemployment have been particularly marked among certain groups. Long-term unemployment has fallen by over 332,000 since spring 1997 to its lowest level for a generation, including a fall in long-term youth unemployment of over 138,000. Employment is currently at record highs, having risen by 1.7 million since spring 1997.



4.3 The Government is committed to building on this strong performance to deliver employment opportunity for all. To achieve this requires a productive, enterprising economy with a flexible labour market. In today's global market place, flexible economies are also those with higher employment.

4.4 Flexibility must be matched with fairness. The Government has provided increased financial support for those who need it most, when they need it most, through reform of the tax and benefit system. The introduction of the National Minimum Wage and new tax credits have been key reforms. In addition, the Government has made reforms to employment services, such as Jobcentre Plus, which provides the advice and support that enable people to enter the labour market rapidly. Annex C of this Pre-Budget Report describes progress in raising flexibility and fairness across UK labour, product and capital markets. Labour market flexibility remains central to achieving the challenges facing the EU's labour markets, as discussed in Box 4.1.

Box 4.1: Delivering full employment in the European Union

In July 2003 the Government published *A full employment strategy for Europe*, which set out the key challenges facing EU labour markets. The paper highlighted the importance of flexibility and employment in promoting social inclusion.

The EU contains 15 diverse labour markets, with different cultures, traditions, frameworks and institutions, but common goals. The EU has three employment targets for 2010. While the UK already meets all of these targets, the labour market performance of many other Member States has been less strong and the EU as a whole falls short of all three targets. A step-change in the pace of reform is essential if these targets are to be met. From May 2004, the EU will welcome ten new members, making labour market reform even more important. After enlargement and for the EU25:^a

- to reach the 70 per cent overall employment target by 2010 will require the creation of at least a further 21.5 million jobs, given the current employment rate of 62.9 per cent;
- meeting the 60 per cent goal for female employment requires at least 8 million jobs, given a current female employment rate of 54.7 per cent; and
- meeting the 50 per cent employment target for older workers requires at least 6 million more jobs given a current employment rate for older workers of 38.7 per cent.

Member States must act now to achieve these goals, a message reinforced by the report of the European Employment Taskforce in November 2003.^b The UK Government welcomes the report of the Taskforce, and in particular its focus on job creation and its specific recommendations to Member States. The Government believes that the report represents a vital opportunity to reinvigorate labour market reform in the EU, and calls on all Member States to demonstrate the political will to drive through necessary change.

Reform must not come at the expense of those on the margins of the labour market. The challenge facing EU Member States is to raise employment and increase social cohesion by making labour markets respond more efficiently to changes in economic conditions. Flexible working patterns and working hours are an important first step back into the labour market for vulnerable groups, such as lone parents and older workers, and enable firms to respond to difficult economic conditions. Badly targeted legislation can, by contrast, reduce labour market flexibility and damage the EU's prospects of achieving its objectives.

^a *Employment in Europe 2003. Recent Trends and Prospects*, Eurostat, 2003.

^b *Jobs, Jobs, Jobs, creating more employment in Europe*, Report of the Employment Taskforce, November 2003.

Choice in the labour market **4.5** Delivering full employment requires that everyone should be in a position to take advantage of the opportunities offered by a stable, enterprising economy. Choice in the labour market is essential to achieving full employment. To have genuine choices over entering, remaining and progressing in employment, individuals must have the necessary financial incentives, skills, mobility and support. Two key elements of the Government's full employment strategy ensure that individuals are able to do this by:

- removing the barriers to entering, remaining in and progressing within work; and
- ensuring policy delivery is effective, efficient and responsive to individual and local circumstances.

This chapter describes the steps the Government is taking to deliver both of these elements.

EXTENDING CHOICE – ENSURING REAL OPPORTUNITY FOR ALL

4.6 The ability of individuals to make genuine choices in the labour market must not be constrained or distorted by barriers to employment or to progression within work. Neither should it be eroded by detachment from the labour market or by an inability to adapt to new technologies, changing consumer preferences or evolving demands for skills.

Effective job search

4.7 Effective support for job search is central to taking advantage of employment opportunity. The Government is committed to providing the support needed for everyone to fulfil their potential in a dynamic, enterprising economy. Active labour market policies (ALMPs) are tailored to meet the particular needs and circumstances of each individual. They are also based on evidence of what works, and confined to options that are effective, a choice of inadequate support measures being of little value. Participation in job search activity for the long-term unemployed is, for example, mandatory, as its absence would risk long-term detachment from the labour market and the consequent erosion of labour market choice. This Pre-Budget Report sets out measures that build on the success of ALMPs and further extend opportunity for all.

Helping the unemployed **4.8** The Government's Welfare to Work strategy ensures that those who are unemployed remain attached to the labour market. It seeks to tackle and prevent long-term unemployment by equipping people with the skills and opportunities they need to compete successfully for job vacancies. The New Deal for young people (NDYP) and the New Deal for those aged 25 and over (ND25+) have helped to deliver significant reductions in long-term and youth long-term unemployment. Over 460,000 long-term unemployed 18 to 24 year olds have found jobs through the NDYP, while ND25+ has helped almost 165,000 older people back into work. New Deal programmes have helped to reduce long-term youth and adult unemployment by over three-quarters. In 2000, the National Institute of Economic and Social Research (NIESR) concluded that, without the NDYP, the level of long-term youth unemployment would have been twice as high.¹

¹ *The New Deal for young people: implications for employment and the public finances*, NIESR, December 2000.

4.9 Budget 2003 announced a series of reforms to build on the success of the Jobseeker's Allowance (JSA) regime and improve its effectiveness in maintaining low unemployment and promoting effective and informed labour market choice. **From April 2004, the minimum number of steps that JSA claimants are required to take to search for jobs will increase, as will the number of interventions in the first six months.** These earlier interventions will help to reduce the risk of long-term detachment from the labour market. Budget 2003 also announced an **increase in the area over which JSA claimants are expected to travel to find work, from one hour to one and a half hours travelling time, after 13 weeks on JSA.**

4.10 The Government is committed to ensuring people have the support they require to return to the labour market. **From June 2005, the Government will build on existing measures by piloting in ten areas a mandatory short intensive work-focused course for all JSA claimants, aged 25 or over, at the six-month stage, in order to support them back into the labour market. This course will be followed by three mandatory personal adviser interviews.**

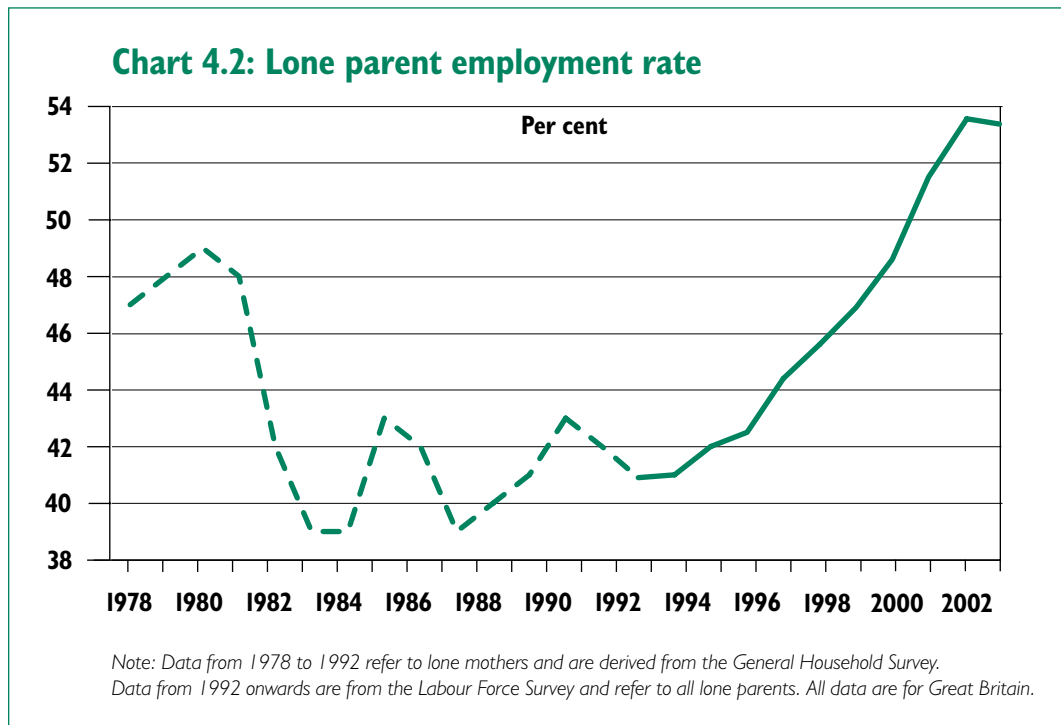
Lone parents **4.11** The Government is giving the 1.7 million lone parents in the UK the ability to exercise informed choice to overcome the difficulties they would otherwise face, particularly when seeking to balance work and family life. The lone parent employment rate in the UK has lagged behind the employment rate of mothers in couples, as well as that of lone parents in other countries. Lone parents are also more likely to live in poverty. Most want to work, and helping them to do so is key to reducing child poverty. The Government's target is for 70 per cent of lone parents to be in work by 2010.

4.12 The New Deal for lone parents (NDLP) gives lone parents the help and support they need if they choose to look for work. It offers a comprehensive package of support, including access to a personal adviser, to all lone parents who are either not working or who are working fewer than 16 hours a week.

4.13 In the five years since the NDLP was launched nationally it has helped more than 225,000 lone parents into work. Evaluation evidence² suggests that the NDLP more than doubles the employment chances of participants. By cutting the benefit bill and increasing employment, analysis³ suggests that the NDLP programme saved the Government £40 million in 2000-01. In part as a result of the NDLP and other Government measures, employment among lone parents has risen substantially, from just over 40 per cent in the early 1990s to 53.4 per cent in spring 2003.

² *New Deal for lone parents: findings from the quantitative survey*, Department for Work and Pensions, March 2003.

³ *New Deal for lone parents: second synthesis report of the national evaluation*, Department for Work and Pensions, June 2003.



4.14 While significant progress has been made, the Government recognises that more help must be offered if the 2010 target is to be met. The implementation of many policies, such as the roll-out of work-focused interviews to all lone parents, is still underway. As well as completing these, the Government also intends to take further steps to enhance the level of work-focused support provided through Jobcentre Plus and the NDLP, and to further facilitate access to good quality and affordable childcare.

4.15 Work-focused interviews help to ensure that lone parents are aware of the help and support available, and are able to exercise an informed choice. More than 600,000 of these interviews have taken place and independent evaluation shows⁴ they have significantly increased participation in the NDLP, while maintaining the rate at which participants find jobs. As announced in Budget 2002, **from April 2004 the requirement to attend a work-focused interview will be extended to lone parents on Income Support with children under the age of five**, completing the extension of mandatory work-focused interviews to all lone parents. **From October 2005, lone parents will be required to attend an interview once every three months when their youngest child is aged 14 or over, to help them prepare for the transition to JSA once their child reaches 16. In addition, from October 2004 a compulsory action plan will be completed for all lone parents when attending their regular work-focused interview.**

4.16 In April 2004 the Government will be introducing extended school pilots in three areas. As a result of the availability of quality childcare, **from September 2004 parents in workless households whose children could benefit from these pilots, and who have been on certain benefits for more than a year and whose youngest child is aged 12 or over will be required to attend quarterly work-focused interviews.**

⁴ *New Deal for lone parents: second synthesis report of the national evaluation*, Department for Work and Pensions, June 2003.

4.17 Employers have a key role to play in helping lone parents into work. Budget 2003 announced a series of measures in six cities with high lone parent populations, based on the recommendations of leading employers consulted by the National Employment Panel. These included 'Discovery Weeks' designed to boost soft skills such as the confidence of lone parents. The first successfully took place in London in November 2003 and the rest will be rolled out to the other five cities from April 2004. A new communications and outreach strategy, again working closely with employers, is also being rolled out. **In addition, Budget 2003 announced that childcare tasters would be piloted in the six cities from April 2004.** These will allow lone parents to access formal childcare for up to one week, to test whether it suits their needs.

4.18 Starting a job can be a stressful time, particularly for those lone parents who have to help their child settle into formal childcare. This Pre-Budget Report therefore announces that, in line with the recommendations of the National Employment Panel, **the Government will cover the costs of a formal childcare place for a lone parent who has found a job through the NDLP for up to one week before they start work, from April 2005.**

Families in London

4.19 Making work pay is key to the Government's strategy to help workless people back into work. Work incentives can be particularly affected by the higher cost of living in London, especially for families with children. **Budget 2003 announced that in twelve locations across the country, including four in London, the Government would pilot a £40 per week in-work credit for lone parents who have been on Income Support for one year or more from October 2004.**

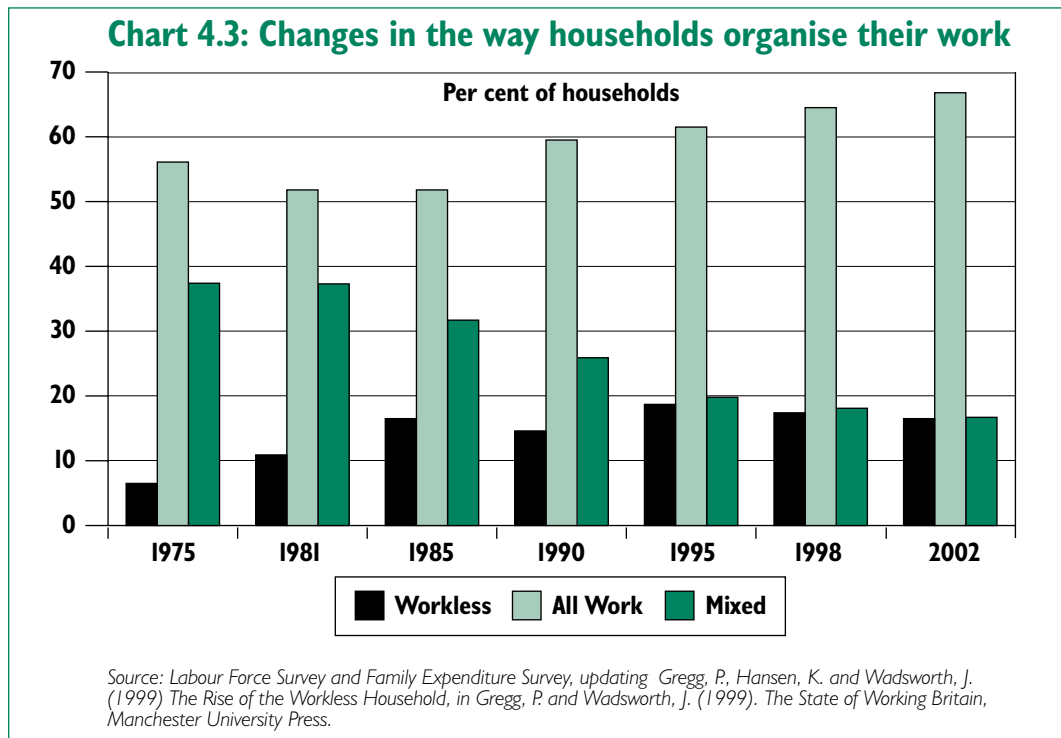
4.20 This Pre-Budget Report announces that, to tackle the particular problem of work incentives in London, **all parents in London who have been out of work and on certain benefits for more than one year will be eligible for the in-work credit from April 2005.** The pilot will not cover the North-East London Jobcentre Plus district, where the Employment Retention and Advancement Project is already testing similar incentives.

4.21 For many lone parents the costs involved in looking for work act as a disincentive to such activity. Budget 2003 therefore announced that **from October 2004 a new worksearch premium of £20 per week, paid on top of normal benefit entitlements, will be available in eight of the in-work credit pilot areas to lone parents who have been on Income Support for more than one year, and who voluntarily choose to search actively for a job.**

4.22 The Government now announces that **lone parents taking part in the pilots will be entitled to free formal childcare while undertaking worksearch activities.** This is in line with help already available for lone parents receiving the Training Allowance.

Partners

4.23 The employment rate among women has risen from 59 per cent in 1984 to almost 70 per cent today, reducing the gender employment rate gap to 10 percentage points – the lowest on record. However, the increase in female participation has been concentrated in households in which the male partner was already in work. Chart 4.3 shows how economic activity has accordingly become increasingly polarised into 'work-rich' and 'work-poor' households. The number of workless households rose from fewer than one in ten in 1975 to almost one in five in the mid 1990s.



4.24 Despite reductions in the numbers of workless people, there are still 4.3 million people of working age and almost 1.8 million children living in workless households. Extending support to every adult in a household who is without work, and not just to the main claimant, is necessary to meet the Government's goals of extending employment opportunity to all and tackling child poverty.

4.25 In the past, the tax and benefit system failed to provide the financial incentives or work-focused support needed to enable either partner in a couple to return to work. Even in the 1990s, the benefit system treated partners (usually female) of unemployed (usually male) claimants, as 'adult dependants' denying them help to make informed choices about opportunities in the labour market.

4.26 Adult dependence is an outdated concept which has denied effective employment choice to a large number of people, primarily women, and constrained effective labour supply. Given appropriate help and support, the partner of a benefit claimant may be just as likely to find work as the main claimant.

4.27 Everyone who is workless should have access to the work-focused support provided by Jobcentre Plus. The Government has already taken steps to extend the rights and responsibilities of JSA claimants on an equal basis. Since October 2002, childless partners of the unemployed, where at least one partner was born after 1957, have also become joint JSA claimants. As announced in the 2002 Pre-Budget Report, the Government also intends to introduce **compulsory work-focused interviews for partners of all new benefit claimants and existing claimants from April 2004**, over and above those having joint claim status for JSA.

4.28 Targeted support for households in which both partners are workless is provided through the New Deal for partners, a personal adviser service for partners of benefit claimants. As announced in Budget 2003, and coinciding with the introduction of compulsory work-focused interviews, **the New Deal for partners will be enhanced from April 2004** to provide the same package of support as is currently available to lone parents. **Partners will also be eligible for the enhanced Job Grant from October 2004.**

4.29 Around 750,000 children live in single-earner families with low incomes. Helping the non-working partner in a single-earner couple to find work can make a significant contribution to cutting child poverty. **The Government will therefore extend eligibility for the New Deal for partners to those in a family in receipt of the Working Tax Credit (WTC) who are either not working or are working less than 16 hours a week from October 2004.** This will help to ensure that those who are workless can benefit from work-focused help, regardless of the status of their partner.

4.30 The Government recognises that there is further to go in modernising the benefit system to reflect today's society. Its long-term aim is to extend rights and responsibilities in the benefit system, building on the success of joint claims for JSA, so that everyone has access to appropriate help and support. At present, couples can nominate the partner to whom benefit should be paid. There is a strong case in principle for extending an individual's right to payment, as and when this is practical.

Older workers **4.31** Older workers often face additional barriers to obtaining work. In 2000, the Government introduced the New Deal for the over 50s on a national basis. This has helped raise the employment rate of those aged between 50 and the state retirement age to 70 per cent. The Government is committed to building on this progress and ensuring that older workers are given the choice and opportunity to extend their working lives. **The Government now announces that, by October 2004, it will extend back to work help for those aged 60 and over and on the Pension Credit through improved access to the help available through existing employment programmes.**

Sick and disabled people **4.32** The Government recognises that there is more to be done to extend effective and informed labour market choice to sick and disabled people. Over 2.7 million working age adults claim an incapacity-related benefit and almost all of the 700,000 people moving onto these benefits each year want and expect to return to work.

4.33 The Government has already taken steps to empower disabled people and give them the ability to make the choice to return to work through the New Deal for disabled people (NDDP). By engaging those on incapacity-related benefits, this helped over 20,000 people into employment between July 2001 and September 2003. The NDDP has been extended for a further two years to March 2006, and its efficacy enhanced by improvements such as ensuring that clients have an appropriate back to work plan.

4.34 Some disabled people, while wanting to move into work, may not be ready to move immediately towards the provisions provided by the NDDP. **The Government is now introducing extra support, from April 2004, to enable Jobcentre Plus personal advisers to support those on Incapacity Benefit who want to move into work.**

4.35 Following a consultation period, the Government confirmed in June 2003 its intention to pilot a series of measures to provide new recipients of incapacity-related benefits with greater support earlier in their claim. The Pathways to Work pilots, which started in October 2003 and run to 2006, will test the effectiveness of more skilled adviser support, a series of additional work-focused interviews, rehabilitation programmes, improved financial incentives and engagement of key stakeholders including employers and General Practitioners.⁵

4.36 Disabled people often face additional costs in participating in the labour market, constraining their choice and opportunity. The WTC has addressed this by increasing the guaranteed minimum income for a single disabled person working 35 hours a week from £173 a week in April 2002 to £201 a week in April 2004. By October 2003, 64,000 families were benefiting from the disabled worker element of the WTC; 68 per cent more than was the case under the Disabled Person's Tax Credit (DPTC).

Ethnic minorities 4.37 The position of ethnic minorities in the labour market is worse than that of the rest of the population on a broad range of measures including employment rates, earnings levels and progression in the workplace, though there is significant variation between ethnic groups. In addition, people from ethnic minorities are more likely to live in the most disadvantaged areas of the UK.

4.38 The Government is taking steps to improve the employment choices and prospects of people from ethnic minority groups. The newly created Ethnic Minority Taskforce is taking forward the recommendations of the recent Prime Minister's Strategy Unit report⁶ on the position of ethnic minorities in the labour market. In addition, an outreach service that helps connect people to mainstream services is operating in the five urban areas that are home to three quarters of Britain's ethnic minority population. Budget 2003 announced:

- **from April 2004, the introduction of specialist advisers in Jobcentre Plus districts with high ethnic minority populations;** and
- **a new policy fund of £8 million over two years** to help Jobcentre Plus managers provide local innovative solutions to helping people from ethnic minorities back into work.

Labour market information 4.39 To be able to make effective and informed employment choices, both with respect to occupation and location, individuals should be able to access relevant labour market information (LMI). Following an announcement in Budget 2003, a steering group has been established to improve collation of the various sources of LMI that exist, and to make these accessible to a wide range of users. The group is already looking at how LMI can be brought together and streamlined to improve both the quality of information and its usefulness in helping develop evidence-based local and regional labour market strategies. Progress is underway to make sources of LMI more easily accessible to the public and advisers through the Worktrain website and other means. The progress of the LMI project will form a part of the overall reporting procedure on the Skills Strategy White Paper, which was published earlier this year.

⁵ More detail is available in *Pathways to Work: helping people into employment*, Department for Work and Pensions, November 2002 and *The Government Response and Action Plan*, Department for Work and Pensions, June 2003.

⁶ *Ethnic Minorities in the Labour Market*, Prime Minister's Strategy Unit, March 2003.

Diverse patterns of employment

4.40 A flexible and fair labour market provides both employers and employees with the ability to choose from a range of alternative working patterns. Different types of employment and flexible working arrangements empower people to balance work with other responsibilities, thereby increasing employment opportunities. The UK labour market displays a significant degree of employment flexibility, being characterised by a high incidence of part-time work, a wide distribution of hours worked and widespread adoption of flexible working practices.

Self-employment 4.41 The Government is committed to providing the support necessary to allow the workless to choose their own form of future employment, including self-employment. To ensure that all workless people are able to take full advantage of the support available to them, **the Small Business Service will carry out a review of the routes off benefits into self-employment. The review will report in spring 2004** and will examine:

- the effectiveness of Government-sponsored information services in supporting the transition from unemployment, or employment, to self-employment;
- ways of encouraging moves into self-employment by promoting awareness of the financial and other support available, including the WTC; and
- client and business adviser perceptions of how Government offices and agencies, particularly Jobcentre Plus and Business Link operators, can assist potential entrepreneurs.

4.42 The Government is working hard to bridge the information gap and lack of support that can hinder those on benefits from moving into self-employment. **Jobcentre Plus, in conjunction with Business Links, will produce a leaflet, signposting the support available for those on benefits who wish to set up their own business. Business Links operators will also agree access to Jobcentre Plus offices, enabling them to market their services directly to Jobcentre Plus clients and ensure effective signposting of specialist support services.** Chapter 3 describes in detail the wider action the Government is taking to promote enterprise in the UK.

Skills

4.43 A skilled workforce is essential to the performance of the economy. Skilled workers are able to adapt faster and more effectively to change, to the benefit of the individual, society and the economy. Such flexibility ensures that those who become unemployed can return to employment more rapidly. It also enhances people's employment choices throughout their working life, enabling them to remain in productive and fulfilling employment for longer. Chapter 3 describes the steps the Government is taking to raise levels of skills in the workforce.

Labour mobility

4.44 The ease with which people are able to move location or commute is one determinant of their ability to take advantage of a broad range of employment opportunities. In the UK, as elsewhere in Europe, geographic mobility tends to be low relative to the US. Labour mobility helps ensure that the labour market remains flexible such that the right workers are matched to the right jobs, thereby helping business become more productive and enhancing the country's ability to cope with economic shocks. The way in which assistance with housing costs is delivered can be an important influence on the mobility and the employment choices available to those in receipt of such support.

Reform of Housing Benefit

4.45 Housing Benefit provides help with rental costs for low-income tenants in and out of work. Around 3.8 million tenants rely on it to help cover their rent. The current system of Housing Benefit is complex and difficult to administer, and performance in delivering it is highly variable. The requirement that claimants submit new claims each time they find a job leads many to worry that benefit payments will be interrupted if they move into work. Claimants in the private rented sector often do not know their level of entitlement until they have signed a tenancy agreement, with 70 per cent subsequently finding that their rental costs are not fully covered by their benefit payment. This constrains their ability to choose where to live and to trade off quality and price as they see fit.

4.46 The Government is determined to alleviate these problems and ensure that, regardless of where claims are made, an efficient and reliable service is given. This will help to ensure that Housing Benefit does not constrain people's employment choices. The Government's reform of Housing Benefit is well underway. Budget 2003 announced a series of changes to simplify the design and administration of Housing Benefit, and reduce variations in service and errors in processing:

- **from April 2004, returning to work will be treated as a change of circumstance and so will not require a new full claim to be submitted, and claimants will no longer be required to reclaim Housing Benefit periodically;** and
- **incentives to work for tenants will be improved by disregarding £12.32⁷ of earnings in the calculation of Housing Benefit and Council Tax Benefit for all who are entitled to claim the WTC,** and not just those working 30 hours or more.

4.47 The Government is taking steps to improve the Housing Benefit system further and **from April 2004, the maximum childcare disregards in Housing Benefit will be increased by over 40 per cent to the levels in the WTC. The Government is also examining other ways of aligning Housing Benefit and tax credits.**

4.48 Budget 2003 also announced that **the Government would introduce a new local housing allowance (LHA) in nine Pathfinder areas for tenants in the private sector.** This is a major structural reform of Housing Benefit. Pathfinders have now begun in Blackpool and Lewisham, and the others are in the process of being rolled out. By ensuring that individuals know their entitlement before they sign a tenancy agreement, the LHA gives tenants the opportunity to choose where they want to live, keeping the difference if rent is below the LHA, or finding the extra money if it is above. The Government intends to introduce the flat rate system in the private sector throughout the country as soon as it is practical.

⁷ This figure has been up-rated in line with inflation since this policy was announced in Budget 2003.

4.49 Tenants in the social sector should have the same fair and transparent help as those in the private sector, and benefit from the same opportunities to exercise choice. The process of restructuring rents in the social sector of England is well underway and will be substantially completed by 2011. This restructuring will ensure that the pattern of social housing rents represents more closely the relative attractiveness of properties to tenants. **The Government intends to begin LHA Pathfinders in the social sector as soon as is practical. These pilots will inform extension of a flat rate system to the social sector when rent restructuring and increased choice create a better market.**

4.50 The Government is committed to further structural reform of Housing Benefit to ease the transition to work for all working age tenants and ensure that they see appropriate gains to work as they progress within employment. This will address the problem of steep benefit withdrawal rates in order to ensure a more effective system of support for housing costs.

Making work pay

4.51 A flexible and dynamic labour market requires work incentives that make it worthwhile for people to participate in the labour market. Through the National Minimum Wage and new tax credits, the Government has made the transition from a benefit system that generated barriers to work, to a system of financial support which opens up employment choices to individuals by providing greater rewards from work. The Government's strategy to make work pay tackles two problems:

- the unemployment trap, when those without work find the difference between in-work and out-of-work income too small to provide an incentive to enter the labour market; and
- the poverty trap, when those in work have limited incentives to increase their hours or to move up the earnings ladder because it may leave them little better off.

The National Minimum Wage

4.52 The National Minimum Wage, introduced in April 1999, guarantees a fair minimum income from work. The Fourth Report from the Low Pay Commission (LPC), published in March 2003, reported that the National Minimum Wage has had no discernible negative impact on overall employment, inflation or the wider economy; indeed since its introduction the UK economy has created 1.1 million jobs.

4.53 In the light of these findings, as announced in Budget 2003, the rate for adult workers aged 22 or over was increased to £4.50 an hour in October 2003 and, **subject to consideration of the LPC's review early next year, will increase to £4.85 from October 2004.** The youth and development rate, for workers aged between 18 and 21 or in approved training, rose to £3.80 in October 2003 and **will be increased to £4.10 from October 2004, also subject to consideration of the LPC's review.** The latest Office for National Statistics (ONS) estimates indicate that between 1.0 and 1.2 million low paid workers benefited from the new rates of the National Minimum Wage in October 2003, and between 1.6 and 1.9 million will benefit in October 2004.

4.54 The Government has agreed that the LPC should consider the case for a minimum wage for 16 and 17 year olds and the Treasury is leading a wider, cross-government, review of financial support for 16 to 19 year olds as described further in Chapter 5. The Government believes that, in principle, the youngest workers should have the same protection from exploitatively low wages, as long as this does not harm their opportunities and incentives to remain in education or take up a training course, nor affect their future employment prospects.

The Working Tax Credit 4.55 The WTC is designed to tackle poor work incentives and persistent poverty among working people, providing support on top of the earnings guarantee through the National Minimum Wage. It builds on the success of the Working Families' Tax Credit (WFTC) and the DPTC by improving labour market choices for working families in several ways. The WTC is responsive to changes in income and circumstances and can provide increased support if household income falls. The WTC mainstreams support for disabled working people within the financial support system for working households and extends the scope of this support for the first time to households without children or a disabled worker.

4.56 By October 2003, just six months after the new tax credits were introduced, 1.54 million families were receiving the WTC. In addition, many more families were benefiting from extra help through the childcare and disabled worker elements of the WTC than benefited from equivalent tax credits last year. **This Pre-Budget Report announces that elements of the WTC will be uprated in line with the Retail Prices Index in 2004-05**, consistent with the Government's commitment. Chapter 5 discusses the extra help for childcare costs that the WTC provides.

4.57 Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999 and the WFTC in October 1999, the Government has increased the minimum income that people can expect when moving into work, so reducing the unemployment trap.

Table 4.1: Weekly minimum income guarantees

| | April 1999 | October 1999 | April 2004 |
|---|------------|--------------|------------|
| Family ¹ 1 child, full-time work (35 hours) | £182 | £200 | £248 |
| Family ¹ 1 child, part-time work (16 hours) | £136 | £144 | £190 |
| Single person, no children, 25 or over, full-time work (35 hours) | £113 | £113 | £160 |
| Couple, no children, 25 or over, full-time work (35 hours) | £117 | £117 | £190 |
| Disabled person (single), working full-time (35 hours) | £139 | £155 | £201 |
| Disabled person (single), working part-time (16 hours) | £109 | £112 | £142 |

Note: assumes a single earner household, the prevailing rate of the National Minimum Wage and that the family is eligible for the Working Families' Tax Credit or Disabled Person's Tax Credit and the Working Tax Credit/Child Tax Credit.

¹ applies to one parent families and couples with children alike.

4.58 The Government's reforms are also tackling the poverty trap. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefit or tax credits. Excessive MDRs reduce working families' labour market choices because they distort incentives to work longer hours or move up the earnings ladder and thereby weaken the link between increased gross earnings and improved living standards.

4.59 Table 4.2 shows that, as a result of the Government's reforms, nearly half a million fewer low-income households now face MDRs in excess of 70 per cent than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which have extended financial support so that far more families benefit. The estimated number of households in this band has increased since Budget 2003, reflecting both the greater number of working families on low and moderate incomes benefiting from the new tax credits than was expected prior to their introduction, and the increase in the child element of the Child Tax Credit announced in this Pre-Budget Report.

4.60 This analysis overestimates the impact of MDRs under the new tax credits, as it does not take into account the effect of the disregard of income rises of £2,500 compared with income in the previous year. The disregard ensures that families will not see their tax credit awards reduced as soon as their income increases, with the result that the effective MDR in any one year is reduced. However, the system responds in full to falls in income as soon as they are identified, ensuring that extra support is provided to families when they need it most.

Table 4.2: The effect of the Government’s reforms on high marginal deduction rates

| Marginal deduction rate ¹ | Before Budget 1998 | 2004-05 system of tax and benefits |
|--------------------------------------|--------------------|------------------------------------|
| Over 100 per cent | 5,000 | 0 |
| Over 90 per cent | 130,000 | 50,000 |
| Over 80 per cent | 300,000 | 200,000 |
| Over 70 per cent | 740,000 | 270,000 |
| Over 60 per cent | 760,000 | 1,745,000 |

¹ Marginal deduction rates are shown for working households in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week and the head of the household is not disabled.

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2004-05 system of tax and benefits is based on 2001-02 caseload and take-up rates, and projected caseload estimates of Working Tax Credit and Child Tax Credit in 2004-05 are based on October 2003 administrative data.

DELIVERING CHOICE – RESPONSIVENESS AND FLEXIBILITY

4.61 The Government wants to extend labour market choice to every individual by removing barriers to employment, and also by ensuring that policies are delivered in a manner that is flexible and responsive. Policies must be tailored to meet the needs of individuals in an effective and efficient way. It is important that the local autonomy and discretion this entails is anchored in clear long-term goals and strong accountability and transparency. These principles underpin the Government’s wider public sector reform agenda, described in detail in Chapter 6.

Building on success

4.62 The Government intends to build upon the success of the New Deal by learning from the best of current provision and strengthening the New Deal’s ability to help people who face particular difficulties in moving into employment. The Government will examine the range and availability of provision and the support needs of both unemployed and economically inactive people, integrating services within the New Deal to ensure that the full range of effective help is in place.

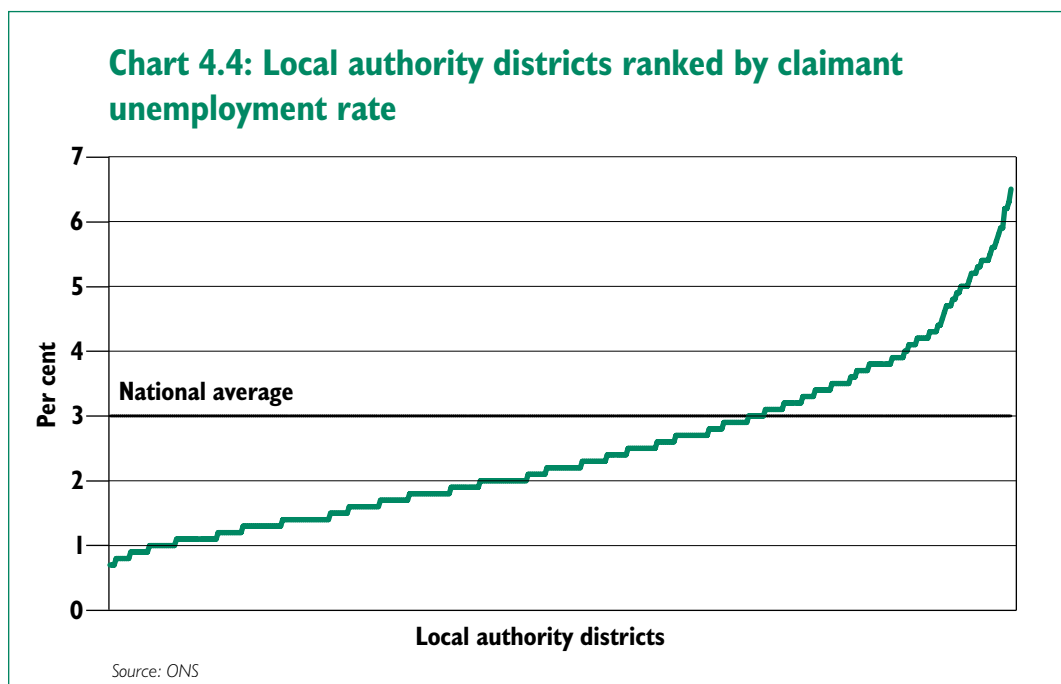
4.63 The Government will consider the case for extending further flexibility to respond to the needs of individual clients and local areas, subject of course to the maintenance of high national standards, and in the context of the overall framework of rights and responsibilities of the national benefit system. The Government will also consider the scope for simplifying current processes to make systems easier for employers, clients, advisers and providers.

Variety of ways to access services

4.64 The creation of Jobcentre Plus brings together the Employment Service and those parts of the Benefits Agency dealing with working age people to provide inactive benefit claimants with the same level of work-focused support available to other benefit claimants. Jobcentre Plus offices have the facilities to ensure that employers and all those seeking work – the inactive as well as the unemployed – are matched more effectively, ensuring people are able to move back into work quickly. Since its launch in April 2002, almost 300 new Jobcentre Plus offices have opened and **the Government aims to complete the nationwide roll-out of more than 1000 offices in 2006**. Best practice will be adopted nationally as Jobcentre Plus is rolled out, and as resources are freed up, local discretion and autonomy will ensure that Jobcentre Plus customers are empowered to make effective and informed labour market choices.

Local responsiveness and flexibility

4.65 Chart 4.4 shows that, despite the success of Government policy in raising the overall employment rate, local concentrations of worklessness still persist. It is important that policy is delivered in such a way as to address effectively the problems of these areas, and help local and regional economies adjust to change. Further analysis is presented in *Full employment in every region* published alongside this Pre-Budget Report.



Concentrations of worklessness

4.66 Recognising the importance of flexible regional and local employment programmes, the Government announced in the 2002 Pre-Budget Report **the introduction from April 2004 of the Working Neighbourhood pilots, which will provide a programme of intensive support in 12 neighbourhoods with very high concentrations of worklessness, to help local residents access jobs that are often within travelling distance of where they live**. In each Working Neighbourhood pilot area, residents claiming JSA will benefit from accelerated access onto the New Deal after just three months of unemployment. More frequent work-focused interviews will also be introduced for partners and lone parents, and new Incapacity Benefit claimants will be given more help to ensure that employment opportunities and barriers to work are regularly discussed.

4.67 The 2002 Pre-Budget Report also announced that each Working Neighbourhood pilot area will receive a discretionary fund allowing Jobcentre Plus, working in conjunction with local strategic partners, greater flexibility and discretion to increase their effectiveness in moving local people quickly into work.

Rapid Response Service 4.68 The Rapid Response Service (RRS) helps local areas adapt to large-scale redundancies, ensuring that individuals, employers and the local economy do not suffer long-term damage as a consequence of these redundancies. As long-term detachment from the labour market can lead to the erosion of labour market choice, the role that the RRS can play is significant.

Action Teams 4.69 Action Teams for Jobs have been introduced in 63 disadvantaged areas of the UK, many of which contain large ethnic minority communities. Action Teams focus on the long-term unemployed and inactive, using their resources in innovative ways to address specific local barriers to work. The Government is building on the success of Action Teams by announcing that, **from April 2004:**

- **the 63 existing Action Teams will be extended to 2006;**
- **two additional Action Teams will be introduced in Wear Valley and Barrow-in-Furness; and**
- **Jobcentre Plus District Managers and Action Team contractors will have greater discretion to direct resources towards the most disadvantaged people in their area.**

Public sector wage flexibility 4.70 The Government aims to increase the use of geographically differentiated pay across the public sector, within existing national bargaining frameworks. This will better recognise local and regional labour market conditions, ensure that employers and employees are making choices based on these labour market needs and conditions, and help government services to meet local recruitment and retention needs. The Government has amended the remits for the Pay Review Bodies to include a stronger local and regional dimension, and is now also working with the rest of the public sector to increase the focus on local pay, side by side with UK-wide guarantees of a National Minimum Wage and the tax credit system.

Balancing public and private provision

4.71 Ensuring people have the best chance of getting back into work requires striking the right balance between provision provided by the public and the private sector.

Employment Zones 4.72 Employment Zones are helping long-term unemployed people aged 25 and over back into work in 15 areas of England, Scotland and Wales. They provide jobseekers and their personal advisers with complete discretion over funds to overcome individual barriers to work, and so open up employment opportunities that may not have existed. Budget 2003 announced further steps to extend the help provided, including:

- **the extension of the Employment Zone approach to people who would otherwise return to the NDYP for a second or subsequent time from October 2003;**
- **from April 2004, replacing the NDLP in the five London Zones and for lone parents returning for a second or subsequent work-focused interview in the other Zones; and**
- **to make the most effective use of resources through the use of multiple providers, from April 2004, multiple providers will be introduced in the five London Zones, as well as in Birmingham, Liverpool and Glasgow.**

FUNDING FOR WELFARE TO WORK

4.73 The Department for Work and Pensions delivers the majority of the Welfare to Work programme, which is funded by the one-off Windfall Tax on the excess profits of the privatised utilities together with resources allocated in the 2002 Spending Review. The DWP annual report sets out expenditure plans and outturn information. Table 4.3 sets out that element of the Welfare to Work programme funded by the Windfall Tax.

Table 4.3: Allocation of the Windfall Tax

| £million | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 ² | 2003-04 ^{2,3} | 2004-05 ² | 2005-06 ² | TOTAL |
|---|--------------|--------------|------------|------------|------------|----------------------|------------------------|----------------------|----------------------|--------------|
| Spending by programme¹ | | | | | | | | | | |
| New Deal for young people ⁴ | 50 | 200 | 310 | 300 | 240 | 260 | 170 | 0 | 0 | 1,530 |
| New Deal for 25 plus | 0 | 10 | 90 | 110 | 200 | 210 | 150 | 0 | 0 | 770 |
| New Deal for over 50s | 0 | 0 | 5 | 20 | 10 | 10 | 10 | 0 | 0 | 60 |
| New Deal for lone parents | 0 | 20 | 40 | 40 | 40 | 80 | 60 | 0 | 0 | 280 |
| New Deal for disabled people ⁵ | 0 | 5 | 20 | 10 | 10 | 30 | 30 | 0 | 0 | 100 |
| New Deal for partners | 0 | 0 | 5 | 10 | 10 | 10 | 10 | 0 | 0 | 40 |
| Childcare ⁶ | 0 | 20 | 10 | 5 | 0 | 0 | 0 | 0 | 0 | 35 |
| University for Industry ⁷ | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 |
| Workforce development ⁸ | 0 | 0 | 0 | 0 | 0 | 40 | 50 | 150 | 80 | 320 |
| ONE pilots ⁹ | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 0 | 0 | 10 |
| Action Teams | 0 | 0 | 0 | 10 | 40 | 50 | 50 | 0 | 0 | 150 |
| Enterprise development | 0 | 0 | 0 | 10 | 20 | 10 | 0 | 0 | 0 | 40 |
| Modernising the Employment Service | 0 | 0 | 0 | 40 | 0 | 0 | 0 | 0 | 0 | 40 |
| Total Resource Expenditure | 50 | 260 | 480 | 560 | 570 | 700 | 530 | 150 | 80 | 3,380 |
| Capital expenditure¹⁰ | 90 | 270 | 260 | 750 | 450 | 0 | 0 | 0 | 0 | 1,820 |
| Windfall Tax receipts | 2,600 | 2,600 | | | | | | | | 5,200 |

¹ In year figures rounded to the nearest £10 million, (except where expenditure is less than £5 million). Constituent elements may not sum to totals because of rounding.

² Figures are provisional for the years from 2002-03 to 2005-06.

³ Windfall tax expenditure on welfare to work programmes is reduced from 2003-04 onwards as windfall tax resources are exhausted. Remaining in-year expenditure will be topped up with general Government revenues.

⁴ Includes funding for the Innovation Fund.

⁵ Includes £10 million in 1999-2000, an element of the November 1998 announcements on welfare reform.

⁶ Includes £30 million for out-of-school childcare. The costs of the 1997 Budget improvements in childcare through Family Credit are included from April 1998 to October 1999, after which the measure was incorporated within the Working Families' Tax Credit.

⁷ Start up and development costs. Other costs of the University for Industry are funded from within Departmental Expenditure Limits.

⁸ Includes £219 million funding for Employer Training Pilots.

⁹ Funding for repeat interviews. Other funding is from the Invest to Save budget.

¹⁰ Includes capital spending on renewal of school infrastructure, to help raise standards.